Treasury Inspector General for Tax Administration

EMPLOYEES ARE NOT ALWAYS ENSURING THAT TAXPAYERS PAY THE MAXIMUM AMOUNT POSSIBLE WHEN GRANTING PARTIAL PAYMENT INSTALLMENT AGREEMENTS

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Highlights

Highlights of Report Number: 2007-30-170 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

To receive a Partial Payment Installment Agreement (PPIA), a taxpayer has to provide to the Internal Revenue Service (IRS) financial information that should be verified by IRS employees to ensure the taxpayer pays the maximum amount possible. Employees are not always properly verifying the income or assets of the taxpayer, thus not collecting the maximum amount the taxpayer can pay. Inequitable treatment of taxpayers can result when employees in different functions perform varying degrees of financial verifications. Also, because the IRS did not initially establish an appropriate management information system to monitor and track performance of the PPIA program, it could not determine if the program was functioning as intended and serving taxpayers appropriately.

WHY TIGTA DID THE AUDIT

The audit was initiated because the PPIA program was initially implemented in January 2005; this is TIGTA's first review of the program. The overall objective was to determine whether decisions to grant PPIAs are proper and to determine the effectiveness of the management information system used to measure the program.

WHAT TIGTA FOUND

The IRS did not initially establish an appropriate management information system to monitor and track PPIAs. TIGTA's review indicated that 14,042 PPIAs were granted in Calendar Year 2005, based upon computer codes designated for the program. The IRS has taken steps to implement a transaction code for accepted PPIAs, which should allow it to more readily identify these cases. Implementation of this code took effect in January 2007. The IRS has also submitted a Request for Information Services that will start tracking PPIAs and pertinent information by January 2008. However, PPIAs have not been properly tracked or monitored over the past 2 years; therefore, IRS management cannot identify the numbers that were granted or defaulted or the number of taxpayers that had completed their payment requirements. As a result, the IRS cannot properly assess the overall performance of the program.

In 28 of 56 cases reviewed, IRS employees did not document verification of the taxpayers' income and assets in the case files or history sheets. Some employees relied on the limited financial information provided by the taxpayers and did not properly document verification of IRS computer records for the last tax returns filed information. As a result of not verifying income, expenses, and assets, the IRS may not be collecting the maximum amounts the taxpayers can pay because these taxpayers will not have paid off the liabilities in full when the collection statutes expire.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS ensure that the new coding for PPIAs has been properly implemented and is working appropriately and that the management information system will meet IRS needs after its implementation. Management should reemphasize that when working PPIAs employees need to obtain appropriate documentation of income, verify assets, and appropriately document the history sheets and case files. Management should also remind employees to ask taxpayers specific questions regarding the types of income they receive, investments they have, and real property they own and their ability to liquidate or borrow against them.

In their response to the report, IRS officials agreed with the first recommendation and partially agreed with the second. The IRS developed a method to better identify PPIAs using new transaction codes and successfully implemented it in January 2007. It plans for this new coding to allow PPIA data to be included in the Installment Agreement Collection Reports starting in January 2008. The IRS plans to ensure these Reports meet its needs for monitoring the program and make revisions as needed. The IRS plans to revise the campus Internal Revenue Manual to incorporate procedural changes and clarification where necessary regarding income and asset verification and analysis. Finally, the IRS also plans to provide training to campus employees, including instructions relating to PPIAs.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2007reports/200730170fr.pdf.

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